

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6280

BILL NUMBER: HB 1074

NOTE PREPARED: Jan 7, 2014

BILL AMENDED:

SUBJECT: Pension Thirteenth Checks.

FIRST AUTHOR: Rep. Burton

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides for a 13th check for certain members of the: (1) Indiana State Teachers' Retirement Fund (TRF); (2) Public Employees' Retirement Fund (PERF); (3) State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Fund (C&E Fund); and (4) State Police 1987 Benefits System.

Effective Date: July 1, 2014.

Explanation of State Expenditures: The bill creates a formula for postretirement benefit adjustments that takes both years of service and current annual benefits into account. This benefit adjustment is in the form of a 13th check. Table 1 reports a preliminary estimate of the cost to the state due to the proposed formula.

Table 1. State Increase in Pension Benefits from Postretirement Benefit Increase Formula*			
	Qualified Retirees/ Beneficiaries**	Average Benefit Increase	Total Cost as 13th Check
PERF (State)	25,317	\$288	\$7.3 M
Pre-1996 TRF	49,345	\$442	\$21.8 M
C&E Plan	193	\$469	\$0.09 M
Indiana State Police 1987 System	549	\$300	\$0.2 M
Total	75,404	\$389	\$29.4 M
<p>* This cost analysis uses retiree data as provided to Legislative Services Agency. This analysis is an estimate. A more precise cost estimate may be determined by conducting an actuarial analysis. This data is accurate as of 6/30/13.</p> <p>** The analysis does not separate the PERF impact into state and local impacts. Therefore, the analysis uses member proportionality in the plans to determine the cost that may be attributed to each plan. A more precise estimate may be determined by conducting an actuarial analysis.</p>			

Specifically, the formula (for PERF, TRF, and the C&E Fund) is based on two factors: an increase of \$10 for each year of service (up to 30 years of service) plus an increase of 1% on current annual benefits (not to exceed \$300). The maximum available increase under this formula is \$600 in the form of a 13th check.

The 13th check amounts for 1987 System State Police retirees are based on 1% of the maximum basic annual pension amount payable to a retired State Police Trooper with 25 years of service.

Under this bill, the state will bear the costs of the increase for the state-funded portion of PERF (roughly 1/3 of the total PERF system), the TRF Pre-1996 Fund, the C&E Fund, and the State Police 1987 Benefit System. The local PERF portion and the TRF 1996 Fund will impact local units.

[This analysis represents a preliminary estimate based on INPRS and State Police retiree data from 2013 valuation data, as provided to the Legislative Services Agency.]

Pre-1996 TRF: For the Pre-1996 TRF Fund, there will be a one-time payment of \$21.8 M in FY 2015, resulting in 49,345 retirees, beneficiaries, and survivors belonging to the Pre-1996 Fund receiving a one-time average payment of \$442. The Pre-1996 Fund is paid for through appropriations from the state General Fund and payments from the Pension Stabilization Fund.

State PERF: One-time 13th check payments for all state PERF retirees, beneficiaries, and survivors would total \$7.3 M in FY 2015, resulting in 25,317 state PERF retirees, beneficiaries, and survivors receiving an average one-time payment of \$288. PERF is actuarially prefunded through employer contributions. Employer contribution rates are 11.2% of payroll for FY 2014. Increases to the state PERF annual employer contribution rate due to this provision would be reflected in contribution rates beginning in FY 2016.

C&E Fund: One-time 13th check payments for C&E Fund retirees, beneficiaries, and survivors would total \$91,000 in FY 2015, resulting in 193 C&E members who would receive an average one-time payment of \$469. The C&E Fund is actuarially prefunded through employer contributions. The CY 2014 C&E employer contribution rate is 20.75% of payroll. Increases to the annual employer contribution rates due to this

provision would be reflected in contribution rates beginning in CY 2015.

State Police 1987 Benefit System: One-time 13th check payments for the State Police 1987 Benefit System for employees and beneficiaries would total \$165,000 in FY 2015, resulting in 549 members receiving a one-time payment of \$300. The State 1987 Benefit System is funded by state General Fund appropriations.

Explanation of State Revenues:

Explanation of Local Expenditures: Table 2 reports a preliminary estimate of the cost to local units due to the 13th check formula proposed in the bill.

Table 2. Local Increase in Pension Benefits from Postretirement Benefit Increase Formula*			
	Qualified Retirees/ Beneficiaries**	Average Benefit Increase	Total Cost as 13th Check
PERF (Local)	50,633	\$288	\$14.6 M
1996 TRF	3,665	\$386	\$1.4 M
Total	54,298	\$391	\$16.0 M
* This cost analysis uses retiree data as provided to Legislative Services Agency. This analysis is an estimate. A more precise cost estimate may be determined by conducting an actuarial analysis. This data is accurate as of 6/30/13.			
** The analysis does not separate the PERF impact into state and local impacts. Therefore, the analysis utilizes member proportionality in the plans to determine the cost that may be attributed to each plan. A more precise estimate may be determined by conducting an actuarial analysis.			

Local PERF: One-time 13th check payments for all local PERF retirees, beneficiaries, and survivors would total \$14.6 M in FY 2015, resulting in 50,633 local PERF members receiving an average one-time payment of \$288. PERF is actuarially prefunded through employer contributions. Local employer contribution rates average 11.0% of payroll for CY 2014 (each of the local employers have their own individual PERF contribution rate). Increases to the local PERF annual employer contribution rates due to this provision would be reflected in contribution rates beginning in CY 2015.

1996 TRF Fund: For the 1996 Fund, 3,665 retirees, beneficiaries, and survivors belonging to the 1996 Fund will receive an average one-time payment of \$386. Total 13th check payments for members of the 1996 Fund are estimated to total \$1.4 M. The 1996 Fund is prefunded by employer contributions. The FY 2014 employer contribution rate paid by school corporations is 7.5% of payroll. Increases to the annual employer contribution rates due to this provision would be reflected in contribution rates beginning in FY 2015.

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected: Units with members in PERF and school corporations with members in TRF.

Information Sources: Kathy Hoffman, Indiana Public Retirement System, khoffman1@inprs.in.gov; Greg Witter, Indiana Public Retirement System, gwitter@inprs.in.gov; Pam Douglas, Indiana State Police,

pdouglas@isp.in.gov; Indiana State Police Salary and Benefits Webpage, www.in.gov/isp/2876.htm.

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